

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2111 - HB 2410

March 7, 2016

SUMMARY OF BILL: Specifies that the authorizations provided in Tenn. Code Ann. §§ 8-27-202, 8-27-302, and 8-27-702 to establish health plans, does not prohibit a local government entity or local education authority from adopting or making available voluntary benefits that are treated as supplemental benefits and are deemed not to be a “group health plan” when established in accordance with 26 U.S.C. § 5000(b)(1) that defines a group health plan.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures –

Exceeds \$5,000,000/FY16-17

Exceeds \$7,000,000/FY17-18 and Subsequent Years

Increase Local Expenditures –

Exceeds \$3,000,000/FY16-17/Permissive/Local Education Agencies

**Exceeds \$4,000,000/FY17-18 and Subsequent Years/Permissive/
Local Education Agencies**

Assumptions:

- The provisions of Tenn. Code Ann. § 8-27-202 do not apply to local government authorities or local education authorities.
- Based on information from the Department of Finance and Administration, the Division of Benefits Administration (Benefits Administration), the state does not contribute to local government health insurance plans which are separate from local education agency health insurance plans.
- Local education agencies have a portion of their members’ premiums paid for by the state through the Basic Education Program (BEP).
- Pursuant to Tenn. Code Ann. § 8-27-104, “voluntary benefits” are benefits for which the premium is fully paid by enrolled members and may include, but are not limited to, dental, vision, long-term care, and disability insurance benefits.
- Gap or wraparound insurance policies are supplemental policies that providers such as local government or local education agencies may choose to offer their members.
- Gap or wraparound insurance policies cap members’ out of pocket maximums. The plan sponsor is responsible for paying the remaining medical bills exceeding the member’s maximum out of pocket costs.

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- According to an actuarial letter provided by Aon Hewitt to Benefits Administration on February 19, 2016, as a result of local education agencies offering gap/wraparound supplemental insurance plans, premiums for all members of such plans will rise; the total cost of which is split between state and local government.
- Based on information from Benefits Administration, as a result of the estimated increase in insurance premiums to local education agencies, the Local Education Insurance Committee and Local Government Insurance Committee recently confirmed the prohibition of gap/wraparound supplemental insurance plans.
- The provisions of this bill will reverse the prohibition of gap/wraparound supplemental insurance plans and will lead to an estimated increase in insurance premiums for local education agencies.
- Based on the actuarial letter from Aon Hewitt, the total increase in insurance expenditures is estimated to exceed \$12 million in 2016, exceed \$15 million in 2017, and exceed \$19 million in 2018.
- Based on information from Benefits Administration, the state share of insurance plans will increase as a result of local education agencies offering gap/wraparound supplemental insurance plans in amount estimated to exceed \$5,000,000 in FY16-17 and \$7,000,000 in FY17-18 and subsequent years.
- Based on information from Benefits Administration, local education agencies electing to offer gap/wraparound supplemental insurance plans will incur in a permissive and recurring increase in local government expenditures estimated to exceed \$3,000,000 FY16-17 and estimated to exceed \$4,000,000 in FY17-18 and subsequent years.
- According to the actuary letter, Aon Hewitt has not seen a significant increase in gap/wraparound supplemental insurance plans for local government entities; however local governments may offer such plans in the future. Any increase in local expenditures as a result of offering gap/wraparound supplemental insurance plans will be permissive and cannot be reasonably quantified since it is unknown how many local governments will choose to offer such supplemental insurance in the future.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/amj